

Research Department
Federal Reserve
Bank of
San Francisco

January 17, 1975

The Western Year

Most Westerners would rather forget 1974—plagued as it was by rising prices and rising joblessness—yet the record in many ways was quite respectable. Here are some of the 1974 highlights for the one-sixth of the national economy which functions west of the Continental Divide.

Total employment increased about 2 percent for the year (to 13.0 million) or somewhat faster than the national pace. However, employment was relatively stagnant in many major industries, and one-half of the total increase was due to only two industries, services and state-local government. Besides, employment gains were not sufficient to absorb all entrants into the labor force, so that the average unemployment rate rose from 7.2 percent to 8.7 percent over the course of the year. (The regional rate was considerably higher than the national rate, as it has been throughout the post-Vietnam period.) Also, at year-end, 24 of the 34 metropolitan areas in the West were classified as areas of substantial or persistent unemployment.

Personal income rose to about \$188 billion—a 10-percent gain, or close to the 1973 performance—but as in the nation generally, the gain was outpaced by a rise in consumer prices of almost 12 percent. Consumer buying—and consumer borrowing—increased at only about half the 1973 pace. This performance reflected the severe slump in durable-goods purchases; total re-

tail sales rose about 6½ percent, but durable sales dropped 3 percent in response to falling auto sales.

Manufacturing output held close to the 1973 level, although the trend was decidedly downward in the latter part of 1974. Food processing and other nondurable-goods industries raised their output about 3 percent for the year, but durable-goods production fell about 2 percent despite very strong increases in transportation equipment and primary metals. Still, production increases in most industries were somewhat smaller than they were in the previous year.

Bountiful farm sector

The farm year was bountiful—a year of bumper crop production and rising livestock output—but it was also a year of strain under the pressures of rising costs, supply shortages and tumbling livestock prices. Western farmers could thank the elements for much of their bounty, since they enjoyed very favorable growing weather during the year.

Farmers generated over \$14 billion in cash receipts, up 14 percent from the record 1973 level. Most of this came from a sharp advance in crop receipts, due both to record prices and heavy output, as crop records were smashed for the second straight year. Production of wheat, cotton, rice and other field crops rose very sharply, and exports of each of those three major commodities increased more than 70 percent in dollar value in fiscal 1974.

Research Department Federal Reserve Bank of San Francisco

Opinions expressed in this newsletter do not necessarily reflect the views of the management of the Federal Reserve Bank of San Francisco, nor of the Board of Governors of the Federal Reserve System.

Livestock production meanwhile expanded rapidly because of a record accumulation of animals on farm as well as a rapidly developing cost-price squeeze that forced ranchers to liquidate herds and reduce feeding operations. Livestock prices fell sharply after early spring, and cattle prices in particular were 22 percent below 1973 levels as the year ended. Feeding operations fell off under the impact of excess supplies and a cost squeeze; indeed, by late fall placement of cattle and calves on feed fell one-third below year-earlier levels.

Mixed industry results

Another key regional industry, aerospace and electronics, expanded modestly during the year. (Yet after three years of steady gains, aerospace employment remained almost 21 percent below its 1968 peak.) Military prime-contract awards rose almost 8 percent during fiscal 1974 to \$8.8 billion, as the regional industry again captured 27 percent of the Pentagon's procurement spending. But domestic orders for commercial aircraft declined, as rising fuel costs and falling passenger traffic caused the nation's airlines to hold down the size of their fleets of the newer L-1011 and DC-10 models; on the other hand, some of this weakness was offset by the booming foreign market for older-generation Boeing 727's and 737's. Besides, after midyear the recession began to cut into industrial and consumer markets for electronic equipment, while a fairly tight defense budget threatened to curtail many important military projects.

The construction industry held up relatively well despite the continued slump in homebuilding, as total construction awards fell about 1 percent (to \$16.6 billion) in contrast to an 8-percent decline nationally. Much of the strength came from the heavy construction sector—water and electric-power facilities and the like—and from the construction of office buildings and other commercial facilities. In the residential sector, 1974 was a repeat of 1973. Indeed, housing starts dropped even faster than before (32 percent) to 285,000 units, and yet the number of houses under construction and the inventory of unsold housing still remained quite high at year-end.

Weakening raw-material sector

The nationwide housing slump took a heavy toll of the Western lumber industry, forcing an 11-percent cut in production and heavy layoffs. The decline undoubtedly would have been even sharper were it not for the strength of the nonresidential-construction market. This factor, along with a speculative buying flurry, helped push lumber prices to peak levels during the spring months. Total orders and prices then declined, slowly at first and later with increasing momentum, until at year-end softwood lumber prices were 17 percent below year-ago levels. The pulp-and-paper segment of the industry in contrast remained under heavy demand

pressure throughout most of 1974, so that prices shot up 23 percent for the year.

The regional steel industry similarly had trouble keeping up with orders, and its supply problems increased as furnace breakdowns resulted from the all-out production pace. Output thus fell 3 percent below the 1973 pace to 7.1 million tons. To satisfy their heavy requirements, consumers then began to turn to foreign suppliers—increasingly so as these foreign producers began to quote lower prices in reaction to a slowdown in their overseas markets.

Western aluminum producers maintained full-capacity operations throughout 1974, as demand strengthened in the early part of the year, and as hydropower again became assured following the end of the severe Northwest drought. They continued to produce heavily even when a late-year inventory build-up forced producers elsewhere to shut down some production lines. Other nonferrous industries went through a similar cycle of shortages and speculative buying followed by producer inventory buildups and price weakness. In copper, the early-year crunch was aggravated by fuel shortages, equipment breakdowns, strikes and other production problems. Prices of nonferrous metals soared to record levels during the spring period as the worldwide economic boom combined with wide-

spread currency gyrations to spur industrial and speculative demand. But when the turn came, it came quickly and dramatically.

Oil-refinery output lagged about 7 percent behind the year-ago pace, as a result of sluggish demand, a cut in foreign imports, and a continued decline in domestic crude production. Imports fell at an even-faster pace than domestic output of crude, so that domestic sources increased their share of the total market to 55 percent. The import decline reflected the Arab oil embargo as well as reduced availability of crude from Canadian and other sources, but it also reflected the cutback in regional consumption induced by soaring prices and conservation efforts. Prices of refined products at year-end were 70 percent higher than a year ago.

Because of the late-1974 downtrend in most Western industries, the new year opened on a gloomy note. Already suffering from an abortive recovery from the post-Vietnam aerospace slump, the Western economy now faces an increasingly weak demand for both its crude materials and finished products, and the results may be seen in jobless rates that are far higher than the national figure—that may reach, indeed, the highest levels in a generation. Still, the regional economy should benefit from the continued strong worldwide demand for food, and Western crude-material producers may be the first to feel the favorable effects when the national economy turns around.

Regional staff

Research Department
Federal Reserve
Bank of
San Francisco
Alaska • Nevada • Oregon • Utah • Washington
Idaho • Arizona • California • Hawaii

FIRST CLASS MAIL
U.S. POSTAGE
PAID
PERMIT NO. 752
San Francisco, Calif.

BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 1/1/75	Change from 12/25/74	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	87,212	+ 357	+6,345	+ 7.85
Loans (gross, adjusted)—total	68,220	+ 207	+6,640	+ 10.78
Security loans	1,798	- 55	+ 381	+ 26.89
Commercial and industrial	24,269	- 137	+2,681	+ 12.42
Real estate	20,019	+ 20	+1,566	+ 8.49
Consumer instalment	9,860	+ 28	+ 641	+ 6.95
U.S. Treasury securities	6,131	+ 268	- 112	- 1.79
Other securities	12,861	- 118	- 183	- 1.40
Deposits (less cash items)—total*	85,363	+2,285	+8,416	+ 10.94
Demand deposits (adjusted)	23,612	+1,504	+ 572	+ 2.48
U.S. Government deposits	303	- 205	- 997	- 76.69
Time deposits—total*	59,406	+ 609	+8,547	+ 16.81
States and political subdivisions	7,659	+ 313	+ 251	+ 3.39
Savings deposits	18,188	+ 223	+ 250	+ 1.39
Other time deposits‡	29,925	+ 102	+7,162	+ 31.46
Large negotiable CD's	17,100	- 6	+6,392	+ 59.69
Weekly Averages of Daily Figures	Week ended 1/1/75	Week ended 12/25/74	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves	82	89		97
Borrowings	137	134		217
Net free (+) / Net borrowed (-)	- 55	- 45		- 120
Federal Funds—Seven Large Banks				
Interbank Federal fund transactions				
Net purchases (+) / Net sales (-)	+1,066	+1,656		+1,852
Transactions of U.S. security dealers				
Net loans (+) / Net borrowings (-)	+1,092	+ 914		+ 348

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Information on this and other publications can be obtained by calling or writing the Administrative Services Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California 94120. Phone (415) 397-1137.